

# PRINCIPLES OF ECONOMICS

**Lecture 18 LAW OF DIMINISHING MARGINAL UTILITY AND DEMAND**  
**September, 2015**



# **TOPICS TO BE DISCUSSED**

- 1. Law of Diminishing Marginal Utility**
- 2. Derivation of Demand Curve from Marginal Utility Curve**

# LAW OF DIMINISHING MARGINAL UTILITY

**According to Samuelson,** “As the amount consumed of a good increases, the marginal utility of the good tends to decrease”.

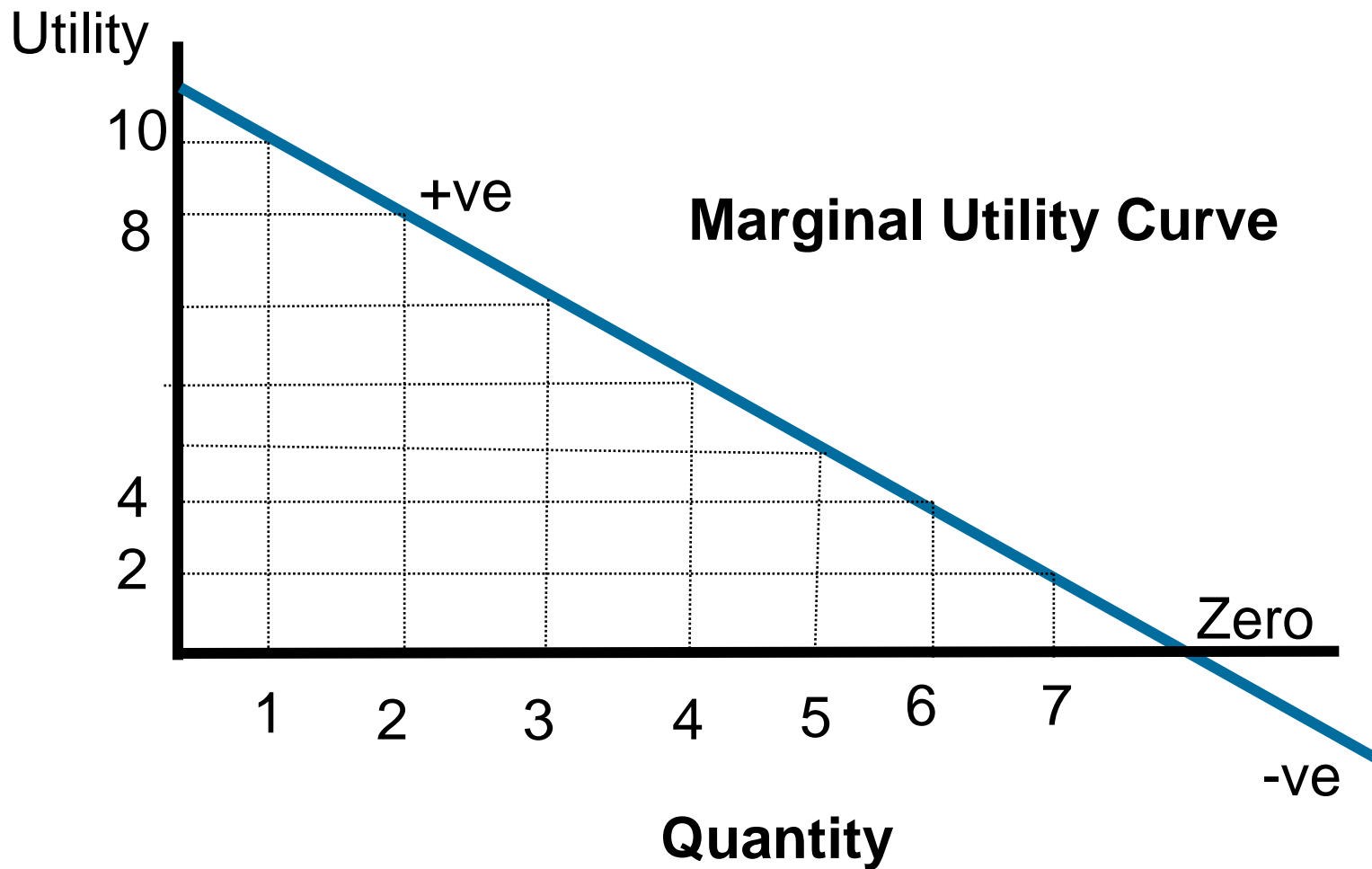
## **Assumptions of the Law:**

- Utility can be measured in cardinal numbers
- There is no change in income of the consumers
- No change in prices of substitutes/complimentary goods
- Taste and preferences remain the same
- Marginal utility of money remains the same

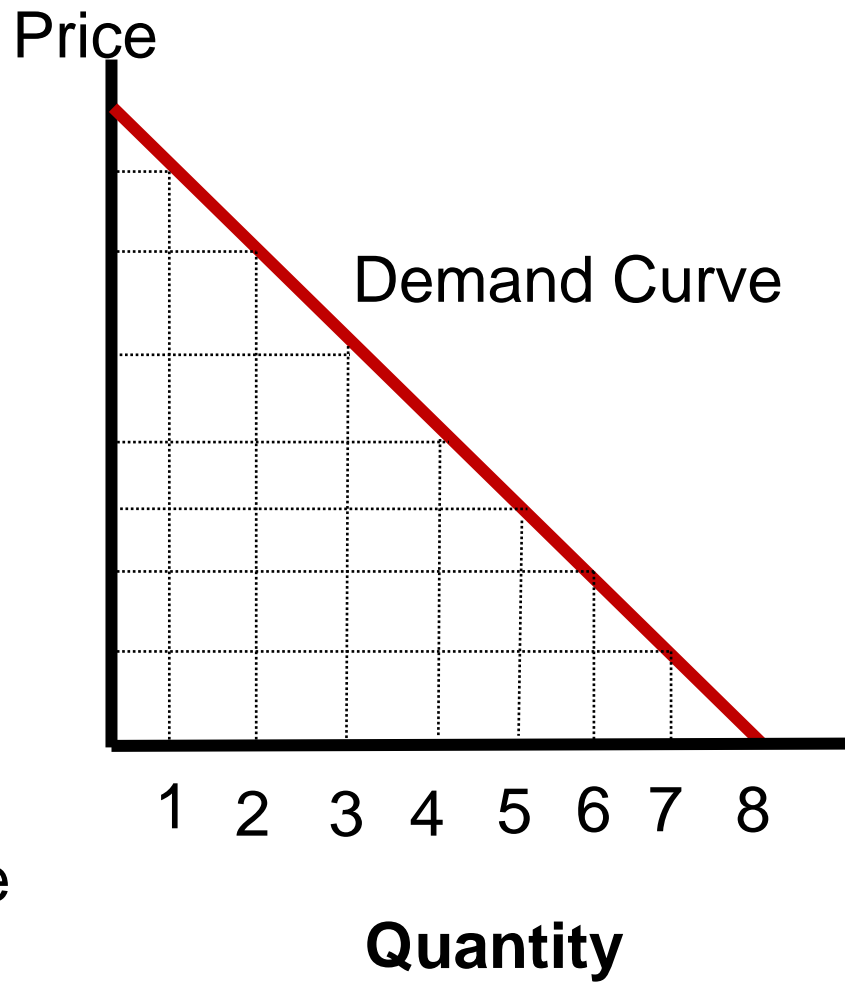
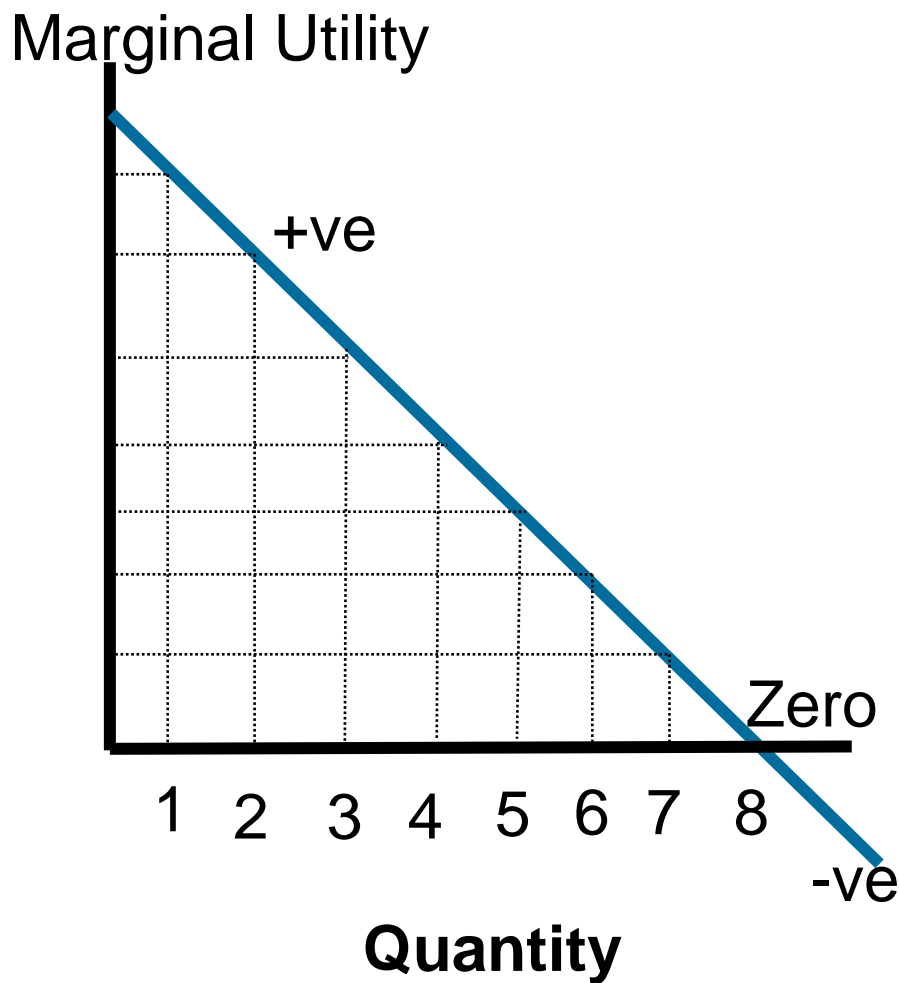
# LAW OF DIMINISHING MARGINAL UTILITY

No. of Burgers	MARGINAL UTILITY
1	4
2	3
3	2
4	1
5	0
6	-1

# LAW OF DIMINISHING MARGINAL UTILITY



# DIMINISHING MARGINAL UTILITY & DEMAND



# CRITICISM

- Cardinal measurement of utility is not possible
- Marginal utility of money does not remain same
- Taste and preferences, income, fashion etc. do not remain same always
- Marginal utility cannot be measured in all conditions
- **Example:** durable items like TV, Washing machine etc- additional unit gives very little utility

**Thank You 😊**